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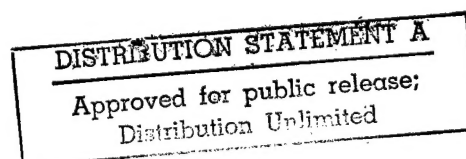
Before the Subcommittee on Military Readiness,  
Committee on National Security, House of Representatives

For Release on Delivery  
Expected at  
2:00 p.m., EDT  
Tuesday,  
July 22, 1997

DOD BUDGET

Budgeting for Operation  
and Maintenance Activities

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss our work on the military services' budgeting for operation and maintenance (O&M) activities.<sup>1</sup> The O&M appropriation provides the services with funds to carry out day-to-day activities such as the recruitment and fielding of a trained and ready force, equipment maintenance and repair, child care and family centers, transportation services, civilian personnel management and pay, and maintenance of the infrastructure to support the forces. The Department of Defense's (DOD) budget request of over \$250 billion for fiscal year 1998 includes almost \$94 billion, or 37 percent of the total, for O&M activities. The examples of budgeting issues I will describe may be symptomatic of a pattern in the way the services estimate their budgets for O&M activities. That is, DOD submits budget estimates that are often different from what the services ultimately obligate for various O&M activities.

My statement focuses on

- examples of differences in the services' budget estimates and obligations for some activities within the services' O&M accounts and
- flexibility the services have in obligating O&M funds and congressional visibility over the movement of those funds between various O&M activities.

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## Summary

We recognize that the amounts the services obligate for O&M activities rarely agree with the estimates reflected in the budget request and that unplanned events often occur. However, our analysis of certain O&M activities shows a pattern of differences between budget estimates for some of the services' O&M activities and what the services obligate for those O&M activities. When such patterns consistently appear, we question whether the budget estimates accurately portray the services' true needs.

The services have a great deal of flexibility as to how they obligate O&M funds, and we recognize the need for flexibility. However, Congress may wish to have greater visibility over DOD appropriations to identify and fully understand variations—and recurring patterns among variations—between the services' budget estimates and actual obligations. Greater visibility could enhance and facilitate Congress' budget

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<sup>1</sup>The words "activity" and "activities" are generally used in this statement to refer to "items of expense," which is the term used in appropriations law.

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decision-making. Whether Congress decides to direct changes in the budget execution process depends on the type of information that Congress believes it needs to make its budget authorization and appropriation decisions.

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## Differences in Budget Estimates and Obligations

In several reports, we identified patterns of differences between estimates in the services' budget submissions and the services' obligations for particular O&M activities.

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### Services Consistently Request More or Less Funds Than They Obligate for Some O&M Activities

In our April 1995 report on Army training,<sup>2</sup> we point out that about \$1.2 billion, or one-third, of the \$3.6 billion budgeted for operating tempo<sup>3</sup> for U.S. Forces Command and U.S. Army, Europe, in fiscal years 1993-94 was used to fund other O&M activities. These other activities included base operations, real property maintenance, and contingency operations in Somalia and Haiti. According to Army officials, funds were moved from operating tempo to the other O&M activities because the activities were either unfunded (contingency operations) or underfunded (base operations and real property maintenance).

The use of operating tempo funds for other O&M activities is an issue that we have repeatedly pointed out in our annual O&M budget reviews. For example, the Army requests and receives funds to operate its combat vehicles at 800 miles per vehicle per year to achieve a prescribed readiness level. However, since fiscal year 1992, the Army has consistently operated at a reduced rate—about 642 miles per vehicle per year in fiscal year 1996—and obligated the remaining operating tempo funds for other O&M activities.

Similarly, in our July 1995 report on depot maintenance,<sup>4</sup> we describe how for fiscal years 1993-94, the services obligated about \$485 million less than the amount requested and about \$832 million less than the amount received for depot maintenance. The funds requested but not obligated for depot maintenance were obligated for military contingencies and other

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<sup>2</sup>Army Training: One-Third of 1993 and 1994 Budgeted Funds Were Used for Other Purposes (GAO/NSIAD-95-71, Apr. 7, 1995).

<sup>3</sup>Operating tempo is the pace of unit training that the Army believes it needs to conduct to maintain its fleet of tracked and wheeled vehicles at a prescribed readiness level. Operating tempo funds cover the cost of fuel, reparable spare parts, and consumable spare parts.

<sup>4</sup>Depot Maintenance: Some Funds Intended for Maintenance Are Used for Other Purposes (GAO/NSIAD-95-124, July 6, 1995).

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O&M activities such as real property maintenance and base operations. This pattern continues. According to the conference report accompanying the fiscal year 1996 DOD appropriations act, Congress intended that the Army have \$950.7 million for depot maintenance. Nevertheless, the Army obligated only \$764.7 million. Furthermore, the Army acknowledged that it will obligate \$91 million less than it received for depot maintenance for fiscal year 1997.

In addition, in our report on the fiscal year 1996 O&M budget,<sup>5</sup> we note that the Air Force requested an increase of \$470 million over the fiscal year 1995 funding level for real property maintenance. According to Air Force officials, the additional funds were needed to compensate for prior years' underfunding. However, real property maintenance obligations in prior years were actually greater than the amount appropriated because funds from other O&M activities had been diverted to the real property maintenance account.

We found similar examples of the services consistently obligating more or less than they budgeted for certain O&M activities when we analyzed groups of O&M activities. In our June 1996 report,<sup>6</sup> we show that the estimated needs reflected in the Army's and the Air Force's budget requests for groups of O&M activities for fiscal years 1993-95 were often greater than the amounts they obligated for those activities. This pattern was particularly true for the Army, which obligated less funds for its combat units than it estimated it would need and less than the amount suggested for this activity in the conference reports to the appropriations acts. For fiscal years 1993-95, the amount of funds the Army obligated for O&M activities related to combat forces and support of the forces was \$900 million less than the \$11.9 billion estimated requirements reflected in its budget request. When training and recruiting funds are also considered, the Army obligated about \$1.3 billion less than the budget estimates. Conversely, the Army obligated more than it estimated it would need for infrastructure and management activities, again obligating more than the

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<sup>5</sup>1996 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-95-200BR, Sept. 26, 1995).

<sup>6</sup>Operation and Maintenance Funding: Trends in Army and Air Force Use of Funds for Combat Forces and Infrastructure (GAO/NSIAD-96-141, June 4, 1996).

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amounts suggested in the conference reports.<sup>7</sup> Of the Army's fiscal years 1993-95 O&M budget requests, about 64 percent was for infrastructure-type functions like base support and management activities. However, about 70 percent of the Army's O&M funds were obligated for these purposes.

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### Services Request Budget Amounts That Differ in General From the Amounts They Obligate for Other O&M Activities

For some O&M activities, the services have alternated between requesting more funds than they obligated for those activities and obligating more than they requested. During our recent review of defense infrastructure and demolition activities,<sup>8</sup> we analyzed the services' budget estimates and subsequent obligations for real property maintenance and base operations activities.<sup>9</sup> We found that for fiscal years 1987 through 1996, the Army requested more than it obligated for real property maintenance in 5 of the 10 fiscal years. The greatest variance occurred in fiscal year 1993, when the Army obligated more than it requested by about 38 percent. The Army requested more than it obligated for base operations in only 3 fiscal years, and the greatest variance occurred in fiscal year 1995, when it obligated more than it requested by about 15 percent.

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### Visibility Over the Services' Movement of Funds for O&M Activities

The services have a great deal of flexibility as to how they use their O&M funds, which is evident from the O&M obligation patterns I have just described. However, that flexibility is limited somewhat by actions taken by various congressional committees.

The services' annual O&M budget requests to Congress are presented in four broad categories referred to as budget activities: operating forces, mobilization, training and recruiting, and administrative and servicewide activities. Each budget activity is further broken down into activity groups that, in turn, are broken down into subactivity groups. The subactivity groups are further broken down into program element codes. Although the

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<sup>7</sup>In our analysis, we categorized O&M activities as being related to combat forces and support of forces; training and recruiting; base support; or management, command, and servicewide activities. These categories were based on criteria developed by the Institute for Defense Analyses, the Joint Chiefs of Staff, and the Office of Program Analysis and Evaluation. However, these categories do not always agree with those the services used in their budget requests. We compared the amount obligated to DOD's budget estimates but were unable to compare the obligated amounts to the amounts appropriated for the O&M activities because that information was not available at the DOD or services' headquarters level.

<sup>8</sup>Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs (GAO/NSIAD-97-125, May 13, 1997).

<sup>9</sup>Real property maintenance includes, for example, buildings, railroads, surfaced areas, non-building facilities, and utility systems. For purposes of our analysis, base operations include activities related to installation support, such as real estate leases, transportation services, and laundry and dry cleaning services.

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program element codes are not part of the budget presentation to Congress, they provide more details about how the services plan to spend funds appropriated. However, the services do not allocate appropriated funds to the program element level.

For several years, including fiscal year 1997, congressional committee reports have provided that if a service moves more than \$20 million from one budget activity to another, for example, from operating forces to mobilization, the move is subject to normal reprogramming procedures.<sup>10</sup> Similarly, if a service moves \$20 million or more from certain readiness-related subactivity groups within the operating forces' budget activity, for example, from combat units to depot maintenance, it is required to provide prior notification to the congressional defense committees.

Because the services do not allocate appropriated funds to the program element level, Congress and the services' headquarters do not have visibility over the amounts requested, appropriated, and obligated at that level for O&M activities. Congress and the services have less visibility once funds are allocated to the base commander. Base commanders have discretion to use the funds as they deem appropriate for mission needs. However, base commanders do not always fund the most critical needs. For example, we reported that base commanders with the Air Force Materiel Command and the Air Mobility Command planned to spend over 30 percent of their real property maintenance funds on facilities and projects that were not the most critical mission needs of the base commanders.<sup>11</sup> Examples include renovating an Air Force band recording studio, repairing a baseball field that flooded when it rained, repairing a heating and air conditioning system in a golf course clubhouse, and landscaping an area surrounding visiting officers' quarters instead of other projects deemed as higher priorities.

In an effort to gain greater visibility over the costs of contingency operations, much of which are financed with the services' O&M funds, Congress established the Overseas Contingency Operations Transfer Fund in the fiscal year 1997 defense appropriations act. Congress appropriates money to the fund, which DOD can transfer to the services' O&M accounts as operations unfold. DOD must report quarterly to the defense appropriations

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<sup>10</sup>Normal reprogramming procedures include, for example, advance notification to congressional committees, and are outlined in Department of Defense Financial Management Regulation 7000.14-R, vol. 3, section 0604, dated December 1996.

<sup>11</sup>1996 DOD Budget (GAO/NSIAD-95-200BR, Sept. 26, 1995).

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subcommittees, detailing amounts transferred from the fund and requirements funded. In a report that we will issue this month, we describe how the Department has improved its process for estimating costs for contingency operations like Bosnia and increased its visibility over those costs at high levels within the Department.

As an additional means through which Congress can have more visibility over the services' movement of funds between O&M activities, the defense authorization act for fiscal year 1998, H.R. 1119, broadened notification and reporting requirements for transfers of funds between subactivity group categories.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions that you or Members of the Subcommittee may have.

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